

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Competitive Product Prices
Priority Mail Express, Priority Mail &
First-Class Package Service
Priority Mail Express, Priority Mail &
First-Class Package Service Contract 26

Docket No. MC2018-24

Competitive Product Prices
Priority Mail Express, Priority Mail &
First-Class Package Service Contract 26
(MC2018-24)
Negotiated Service Agreement

Docket No. CP2018-46

PUBLIC REPRESENTATIVE COMMENTS
ON USPS REQUEST TO ADD PRIORITY MAIL EXPRESS, PRIORITY MAIL &
FIRST-CLASS PACKAGE SERVICE CONTRACT 26
TO COMPETITIVE PRODUCT LIST

(November 15, 2017)

I. Introduction

The Public Representative hereby provides comments pursuant to the Commission Notice initiating this docket.¹ In that Notice, the Commission established the above-referenced docket to receive comments from interested persons, including the undersigned Public Representative, on the Postal Service's Request to add Priority Mail Express, Priority Mail & First-Class Package Service Contract 26 (Contract) to the competitive product list.² The Request included a redacted copy of the Contract, a Statement of Supporting Justification (Statement of Supporting Justification), a Certification of Compliance with 39 U.S.C. § 3633(a) (Certification of Compliance), and a redacted copy of Governors' Decision No. 11-6 as attachments and a redacted

¹ Notice Initiating Docket(s) for Recent Postal Service Negotiated Service Agreement Filings, November 13, 2017 (Notice).

² USPS Request to Add Priority Mail Express, Priority Mail & First-Class Package Service Contract 26 to Competitive Product List and Notice of Filing Materials under Seal, November 9, 2017 (Request).

supporting financial model filed separately as an Excel file. The Postal Service also filed unredacted versions of redacted documents separately under seal.

Under 39 U.S.C. § 3642(b), the criteria governing the Commission's determination to add a product to the competitive product list are (1) whether the product qualifies as market dominant; (2) whether the product is covered by the postal monopoly and therefore excluded from classification as a competitive product; and (3) whether certain additional considerations, including private sector competition, the impact on small businesses, and the views of product users, warrant classification other than that supported by criteria (1) and (2).

Pursuant to 39 U.S.C. § 3633(a), the criteria for the Commission's review require that the Postal Service's competitive prices not result in the subsidization of competitive products by market dominant products; ensure that each competitive product will cover its attributable costs; and ensure that all competitive products collectively cover an appropriate share of the institutional costs of the Postal Service.

The effective date of this contract will be two business days following the day on which the Commission issues all necessary regulatory approval. Contract at 5. The Contract expires three years from its effective date but may be terminated by either party with 30 days' notice. *Id.*

II. Comments

After reviewing the Postal Service's Request, Statement of Supporting Justification, Certification of Compliance, and the unredacted Contract and supporting financial models filed under seal, the Public Representative agrees that Priority Mail Express, Priority Mail & First-Class Package Service Contract 26 satisfies the requirements for inclusion on the competitive products list. In addition, the prices negotiated in the Contract should generate sufficient revenue to cover costs and therefore satisfy 39 U.S.C. § 3633.

Compliance with 39 U.S.C. § 3642: The Postal Service makes a number of assertions that address the requirements of 39 U.S.C. § 3642(b). The Postal Service asserts that its bargaining power in negotiating this contract is constrained by the existence of other similar services offered by competitors and that Priority Mail is

provided in a highly competitive environment. Statement of Supporting Justification at 2-3. The Postal Service also states that Priority Mail is not covered by the postal monopoly and will not negatively impact private sector competitors or customers. *Id.* As these assertions seem reasonable, the Public Representative concludes that the Priority Mail Express, Priority Mail & First-Class Package Service Contract 26 satisfies the criteria set forth in 39 U.S.C. § 3642(b) and therefore warrants classification as a competitive product.

Compliance with 39 U.S.C. § 3633: Based upon a review of the financial model and the contract filed under seal with the Request, it appears that the negotiated prices set forth in the contract should generate sufficient revenues to cover costs during the first year of the contract and therefore comply with the requirements of 39 U.S.C. § 3633(a). Although the contract is expected to remain in effect for a period of three years, the Postal Service has provided no evidence to demonstrate that the contract will comply with the requirements of 39 U.S.C. § 3633(a) during the second and third years of the contract. However, this concern is partially mitigated by terms in the contract that link prices paid under the contract to the prevailing Priority Mail Express, Priority Mail, and First-Class Package Service prices, which should facilitate continued cost coverage through the second and third years of the contract. In addition, the Commission has an opportunity to conduct an annual compliance review in its Annual Compliance Determination.

The Public Representative respectfully submits the foregoing comments for the Commission's consideration.

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